

Written evidence submitted by the Guinness Partnership

1. About the Guinness Partnership

- 1.1. The Guinness Partnership is a 65,000-home housing association delivering housing and care services to 140,000 customers in over 150 local authorities in England. We were founded in 1890 to improve people's lives and create possibilities for them. That mission continues today.
- 1.2. Our vision is for Guinness to:
 - be one of the best service providers in the housing and care sectors;
 - provide as many high-quality homes as possible, and to play a significant part in tackling the country's housing crisis;
 - be one of the best employers in the country; and
 - be a strong and efficient business that does things well, and that people can trust and rely on.
- 1.3. We are passionate about what we do and believe strongly in the positive role social housing plays in improving lives. We plan to deliver 5,500 new homes, including 5,000 affordable homes, by March 2024.
- 1.4. In 2019/20, we started over 1,000 new homes. We also invested £119m in maintaining, repairing and improving our existing homes.

2. Introduction

- 2.1. Guinness welcomes the opportunity to respond to this important inquiry.
- 2.2. **As one of the country's largest housing associations and an organisation investing in both new and existing homes, we have focused our evidence on responding to questions on inequality linked to housing and the role of the Treasury in addressing housing challenges.**
 - England faces an acute housing crisis, with nearly eight million people currently experiencing some form of housing need.¹
 - The past 25 years have seen significant increases in the cost of housing and substantial shifts in the tenure breakdown of how people in England live.
 - To solve the housing crisis, England needs 340,000 new homes per year, 145,000 of which should be affordable, including 90,000 for social rent. However, only around 57,500 affordable homes were completed in each of the last two years and last year just 8,400 social and London Affordable Rent homes were built. At the same time, we continue to see a loss of affordable homes through right to buy, other sales and demolitions which means that over the past year the overall stock of social housing has actually declined by more than 20,000.²
 - A large increase in social housebuilding would enable the Government to achieve its target of 300,000 new homes per year by the mid-2020s. It would also play a significant role in reducing the pressures faced by millions in terms of housing cost. However, it would require a significant increase in Government investment the funding of affordable housing alongside an increase in the amount of grant available per home.
 - Housing associations have a significant role to play in this – together we built over 45,000 homes in 2019/20, of which nearly 40,000 were affordable.³

¹ National Housing Federation, 'People in Housing Need', (2020)

² See [MHCLG Local Authority Housing Data Returns](#) and [Regulator of Social Housing Registered Providers Data Returns](#).

³ National Housing Federation, 'How many homes did housing associations deliver in 2019/20?', (2020)

- Alongside the delivery of new homes, housing associations must also focus on improving the safety of existing homes and making them carbon zero. However, to do so requires a significant investment which reduces financial capacity for the delivery of new homes.
- Over the coming years housing associations must also consider the costs of building safety works. Investment in these works is – of course – of utmost importance however the cost will have an impact. Whilst welcome, the £5 billion set aside by Government to date is likely to fall short of what is needed, with the National Housing Federation estimating costs of £10 billion across the housing association sector.⁴

2.3. It is our view that in the coming years the Treasury should work closely with other Government Departments (including the Ministry for Housing Communities and Local Government) to provide more support for measures to tackle the housing crisis we now face. This should include:

- **The expansion of Government investment in the decarbonisation of existing homes:** The Social Housing Decarbonisation Fund is a welcome first step to support housing associations and other housing providers. However, the costs of decarbonisation are very high and additional Government support will be vital to delivering this alongside building safety and new supply.
- **An increase in Government investment in building safety:** Recent changes to the Government approach with the increase of funding to £5 billion have been welcome but a significant gap between funding available and funding needed remain. In addition, there remains a need to look again at funding for buildings under 18m.
- **Taking the opportunity provided by the removal of the 80:20 rules around housing infrastructure spending:** The successor to this approach must ensure that funds are more evenly distributed across the country in line with the levelling-up agenda and the objectives of the recent Green Book review.
- **An increase in affordable housing grant funding and grant funding per home:** To meet the scale of the housing crisis, grant funding to support the development of much more affordable housing, and in particular homes for social rent, is required, and the grant funding per home must be high enough to make building large quantities of homes for rent financially viable.
- **An increase in financial support for the planning system:** Local authorities need the resources to employ a sufficient number of skilled planning officers so decisions can be made quickly.
- **Making of more land available for development at a fairer price:** Including public land by prioritising the social value of new affordable housing development on disused public land over the capital revenue that can be generated by prioritising private housebuilding.

Response to specific questions

3. Question: How does housing, and housing finance, impact on intergenerational inequality and regional imbalances?

3.1. Intergenerational Inequality

- 3.1.1. Over the course of the past 25 years we have witnessed unprecedented growth in house prices, with the cost of an average home in England increasing from £61,000 in April 1997 to more than £250,000 in May 2021.⁵ This increase in house prices has not come alongside a comparable increase in wages meaning that while the average home cost 3.6 times the average income in 1997, by 2020 this had jumped to 7.8.⁶

⁴ National Housing Federation, 'Three quarters of all MPs support government paying for all building safety costs', (2021)

⁵ UK House Price Index, <https://landregistry.data.gov.uk/app/ukhpi/browse?from=1997-04-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2FUnited-kingdom&to=2021-04-01&lang=en> [accessed 19/07/2021].

⁶ 'Housing Affordability in England and Wales: 2020', Office for National Statistics, (2020)

- 3.1.2. This change in affordability has affected the ability of younger generations to access homeownership, whilst benefitting those who have already achieved this. One impact of this has then been a significant tenure shift in England.
- 3.1.3. Between 1997 and 2020 the percentage of English households in the private rented sector (PRS) increased from 10.5% to 18.7%. This growth coincided with both a decline in homeownership, which dropped from 68.6% to 64.6%, and in social renting, which dropped from 21% to 16.7%.⁷
- 3.1.4. The increased reliance on the PRS works alongside rising house prices to increase intergenerational inequality. Households in the PRS will – on average – pay 31.9% of their income in housing costs compared to 26.6% for social renters and just 17.8% for homeowners.⁸ And in areas of low affordability (e.g. London and the South East) the costs of renting privately versus renting in the social housing sector are increased. In addition, when adjusting for net income we see further challenges for those renting privately with the Affordable Housing Commission finding that families in the private rented sector were more likely to be paying 40% or more of their net income on housing⁹ additionally two-thirds of private renters have no savings at all.¹⁰
- 3.1.5. To address this intergenerational challenge in housing the supply of homes, and in particular the supply of homes for social rent as well as other affordable housing tenures, has to be increased.
- 3.1.6. Increasing the supply of social housing will increase its availability thereby reducing the pressure on the PRS. This will then have a knock-on effect on affordability in the PRS that will also enable those families that can save to do so. For those on the lowest incomes we will also be ensuring that they have access to a secure, stable and affordable home.
- 3.2. Regional Inequality
- 3.2.1. Housing – and Government housing policy - has failed in recent years to help address regional inequality, although positive changes are now being made.
- 3.2.2. Examples of housing policy perpetuating regional inequality and imbalance include:
- The 80/20 rule that saw Government investment in housing infrastructure (e.g. new roads) overwhelmingly focused on areas with the greatest affordability challenges. This approach directed public investment into areas where private capital was willing to get involved and away from areas where the viability of new housing development without public investment was low. Homes for the North has highlighted that one of the effects of this approach was that just 4 out of 72 local authorities in the North of England were eligible for the bulk of funding, despite the North being home to 28% of the English population.¹¹
 - The £50 rule that prevented local authorities and housing associations from accessing grant funding to deliver social rent housing in areas where the gap between average market rents and social rents was less than £50. Again this approach is seemingly understandable, however, among other issues it fails to recognise the substantive difference between a private and a social landlord and the many benefits that people gain from being able to access homes that are affordable, secure and well managed.
- 3.2.3. Happily, changes to government policy are currently being made will see both the 80/20 and the £50 rules amended to enable more investment in lower value areas. However much more is needed if regional inequality is to be properly addressed in housing policy. In low-value areas – for example – Government must continue to expand investment that enables the homes that are needed to be built. Without this public sector support many sites in such areas are simply unviable as development prospects.

⁷ 'English Housing Survey: Headline Report 2019 – 2020, Ministry for Housing Communities and Local Government & Office for National Statistics, (2021)

⁸ Ibid

⁹ 'Making Housing Affordable Again: Rebalancing the Nation's Housing System', Affordable Housing Commission, (2020)

¹⁰ White, R, 'Social Housing and Britain's Housebuilding Recovery, Shelter, (2020)

¹¹ Homes for the North, Levelling up the Green Book Stage 1, 2020

3.2.4. The Government should also adopt a more holistic approach to establishing the costs and benefits of housing investment, drawing on the work of organisations such as Homes for the North and Onward. Homes for the North, for example, has encouraged Government to produce more research on the benefits of considering issues like:

- Impacts on quality of life associated with changes in local population, both positive and negative.
- The environmental impacts of new housing and implications of transition to net-zero.
- The value of housing investment in terms of its contribution to public realm and shared spaces.
- The quality of the local built environment and its impacts on overall perceptions of place level quality.
- The health and wellbeing effects of poor housing.¹²

4. **Question: What have been the trends in, and drivers of, house prices, and to what extent can they be attributed to matters related to the Treasury's remit, in terms of the economy, taxes and housing finance?**

4.1. As highlighted in our response to the previous question house prices have – over the past 25 years – risen dramatically and this has played a role in the growth of intergenerational inequality. The root causes of these long-run increases in house prices include:

- **Long-term undersupply in housebuilding (and particularly affordable housebuilding):** In addition to the 300,000 homes a year that it is widely accepted England needs to deliver we must also look at the backlog caused by years of undersupply. It is also important to consider failures of supply within specific tenures. For example, analysis from Herriot-Watt University has shown that England needs to deliver 145,000 affordable homes per year, including 90,000 for social rent.¹³ However, only around 57,500 affordable homes were completed in each of the last two years and last year just 8,400 social and London Affordable Rent homes were built.¹⁴
- **Reliance on market-sale homes to drive delivery:** The Government has frequently referenced the 1950s and 1960s as examples of eras when England delivered significant numbers of new homes seeing this as evidence we can do the same in the 21st century. However, in those decades local authorities played a significant role and delivered many more homes than private developers – a situation that has now been reversed. One impact of this reliance on private sector housebuilding for market-sale is that absorption rates becomes a major constraint on the numbers of homes that can be built – something highlighted by Sir Oliver Letwin in his Government commissioned review of build out.¹⁵ Numerous think tanks have also built on this analysis to call for greater diversification in the housing sector – something that can be delivered through more support for SME housebuilders, local authorities and housing associations.¹⁶
- **Lack of Government support for supply side measures in housing:** It is widely accepted that increasing housing supply can lead to a reduction in house prices and improvements in housing affordability. One-way Government can achieve this is through direct support for housebuilding. Whilst this type of support has increased in recent years, most notably through the introduction of Homes England Strategic Partnerships and the increased budget for the Affordable Homes Programme, it remains far short of what would be needed to deliver the levels of supply necessary.

¹² Ibid

¹³ Bramley, Prof. G., Housing supply requirements across Great Britain for low-income households and homeless people, Crisis and the National Housing Federation, 2018.

¹⁴ 'Affordable housing supply statistics 2019-20, Live Table 1000c, MHCLG

¹⁵ Letwin, O, 'Review of Build Out Draft Analysis', (2018)

¹⁶ <https://www.cps.org.uk/files/reports/original/210414155949-CPSTheHousingGuarantee.pdf>

- **Government support for demand side measures (e.g. Help to Buy and Stamp Duty):**
There is an important role for Government to play in helping to drive demand for new homes but it is important that measures in this area are balanced against support for housing supply. In addition, such support must also be targeted in such a way that it helps those in need of help and does not simply increase overall purchasing power for those already in or able to access homeownership as this can again lead to rises in house prices. For example, the National Audit Office has previously found that 63% of individuals in receipt of Help-to-Buy loans would have been able to buy a home without this, potentially meaning that instead of enabling homeownership the scheme has to often boosted the amount some individuals and households have been able to spend.

4.2. While not solely responsible for the measures outlined here the Treasury does play an important role in decisions around issues like the level of financial support made available for the delivery of new homes and these decisions have a direct knock-on effect on housing delivery and affordability.

4.3. In addition, issues such as the 80/20 rule that we have highlighted earlier in this response are rooted in value for money arguments and, as such, have a clear link to the Treasury. The same is true in recommendations Guinness has made around the unlocking of public land for development, where a focus on value for money arguments and has often led the prioritisation of capital receipts at the expense of the delivery of new homes.¹⁷

5. Question: How has monetary policy impacted on housing, and should the Bank's remit be changed so that it actively considers the impact of its policies on housing?

5.1. Much of the debate on housing affordability focuses on issues relating to the supply of new homes. However, whilst a long-term failure to build the right homes in the right places has undoubtedly had an impact on house prices supply alone is not the only issue that impacts on housing affordability.

5.2. The Bank of England itself acknowledged this in a 2019 paper that examined the role of interest rates and income growth over 30 years in relation to rising house prices. This paper concluded that:

"...since 1985, the observed decline in index-linked gilt yields and other changes in the cost of home ownership are associated with an increase in house prices of around 90%; income rises account for about a further rise of 80% - between them these factors account for all of the observed rise".¹⁸

5.3. While the Bank's research looked at the long-run impact over 30 years it is worth noting that since 2008 a prolonged period of low-interest rates following the financial crisis has played a significant role in the rebounding and overall growth in house prices we have since experienced.

5.4. The Bank has demonstrated that is alive to both the role of housing in creating and perpetuating inequality and its own role in constraining demand. For example, in June 2021, Andy Haldane the Chief Economist at the Bank warned that the sharp rise in house prices seen over the preceding year would likely worsen inequality.¹⁹

5.5. Whether the Bank should play an active role in stimulating or controlling house price growth by adjusting interest rates though is a difficult question. Recently Sir Dave Ramsden, a Deputy Governor at the Bank, suggested that the monetary policy committee would be keeping a close eye on house price growth and said that they "know what to do" if demand and prices continue to rise.²⁰ However, should the Bank look to take action in response to house price inflation it seems likely that it would be seen as an overtly political move given the role Government policy plays in stimulating the very demand that the Bank would be seeking to control.

¹⁷ For more info see [National Audit Office report into the sale of public land](#) and the Public Accounts Committee

¹⁸ Miles, David and Munro, Victoria, 'UK house prices and three decades of decline in the risk-free real interest rate' (2019), The Bank of England

¹⁹ The Guardian, 'UK housing market is on fire, warns Bank of England chief economist', (2021)

²⁰ The Guardian, 'Bank of England monitors UK housing boom as it weighs inflation risk', (2021)

6. Question: What problems does the UK housing market have, in particular in relation to housing finance, and how has the housing market been impacted by the coronavirus crisis?

6.1. Guinness is playing its part in solving England's housing crisis by building 5,500 new homes by 2024, 5,000 of which will be affordable. Notwithstanding this, there are a number of problems within the current UK housing market that present difficulties.

6.2. The limitations of cross-subsidy

6.2.1. As the level of grant funding per home for affordable housing fell from the 2000s to the 2010s²¹, housing associations increased the proportion of their new homes for sale in order to generate income to use as cross-subsidy to continue delivering affordable homes.

6.2.2. Analysis undertaken on behalf of the National Housing Federation found that the total cost of building a social rent home (excluding London) was £323,000. £183,000 of that cost – well over half – was already met by the housing association through borrowing against future rental income and sales receipts from homes for outright sale and for shared ownership. The remaining gap – £162,000 – needed to be met with grant in order to fully fund the home. The grant requirement per affordable rent home was shown to be £74,000 and £29,000 per shared ownership home.²²

6.2.3. The average level of grant per home delivered through the 2016-21 Affordable Homes Programme was £38,519.²³ However, the average blended grant rate per home delivered through Guinness's Strategic Partnership with Homes England and Stonewater is better at just under £50,000 per home. Nonetheless, this leaves a shortfall between the level of grant available and the grant required to meet the cost of building a new affordable home which then has to be made up through internal subsidy.

6.2.4. In the long run, developing large numbers of affordable homes with lower grant rates is simply not sustainable, especially with other cost pressures rising.

6.3. Changes to shared ownership within the Affordable Homes Programme 2021-26

6.3.1. Guinness welcomed the announcement of the new £12.2bn Affordable Homes Programme which includes funding for social and affordable rent. However, the new programme has introduced additional conditions to access this funding, most notably the Right to Shared Ownership and changes to the shared ownership product, which will make it harder for housing associations to build the same number of homes as under the current programme unless more grant, and more grant per home, is agreed.

6.3.2. Guinness already owns around 7,000 shared ownership homes and we fully support people's aspirations to own their home. But the new model will be more costly to maintain. Our current modelling shows for a shared ownership home to be viable under the new programme, a significantly larger amount of grant funding per home would be required.

6.4. Cost of land

6.4.1. Increasing house prices are reflected in increasing land prices. ONS data shows the price of land has quadrupled over the last twenty years, outstripping the rise in house prices that we have identified elsewhere in this response.

6.4.2. In 1995, the price paid for a home was roughly equal between the land cost and the property. By 2016, land accounted for 70% of the price of a home and is projected to increase to 83% by 2036.²⁴

²¹ Milcheva, Dr. Stanimira, 'Double or Quits: The influence of longer-term grant funding on affordable housing supply' (2020), The Bartlett School of Construction and Project Management, University College of London.

²² National Housing Federation, 'Capital grant required to meet social housing need in England 2021 – 2031', (2019)

²³ Milcheva, Dr. Stanimira, 'Double or Quits: The influence of longer-term grant funding on affordable housing supply' (2020), The Bartlett School of Construction and Project Management, University College of London.

²⁴ 'The Invisible Land, The Hidden force driving the UK's unequal economy and broken housing market' (2018), Institute for Public Policy Research.

- 6.4.3. Expensive land drives up the cost of delivering new homes and in doing so makes delivering affordable housing, and in particular homes for social rent, more difficult.
- 6.4.4. Analysis from the Network Housing Group showed that their construction costs per home had increased by 15.3% above RPI inflation from 2010-18, and they attribute this to increases in the cost of land and construction above the cost of inflation.²⁵
- 6.5. The planning system
 - 6.5.1. While not specifically relating to housing finance the role that the planning process plays in the housing market is of vital importance.
 - 6.5.2. The Raynsford Review of Planning identified widespread concern about a lack of sufficient resource within the planning system – an observation supported by a report from the National Audit Office in 2019. In our experience, delays in planning due to a lack of resource adds time and cost to the planning process, leading to homes being built more slowly.
- 6.6. The costs of building safety and decarbonisation
 - 6.6.1. Post-Grenfell new requirements have meant a massive increase in fire safety and building safety compliance related costs. The safety of our residents is paramount, and Guinness fully supports these measures to keep our residents safe.
 - 6.6.2. However, they bring a significant investment requirement. For example, Guinness plans to spend £100m on building safety measures over the next five years.
 - 6.6.3. In March 2020, the National Housing Federation revealed that social landlords are facing a bill of more than £10bn to fix fire safety problems.²⁶ This cost is significantly higher than the £5 billion in support made available for building safety work so far. Moreover, buildings under 18 metres in height are not eligible for the Building Safety Fund and this should be reviewed.
 - 6.6.4. Achieving zero carbon by 2050 was made a legal requirement by Prime Minister Theresa May in 2018. It is also a moral imperative – without drastic action now future generations will be faced with dangerous and destabilising climate change. However, meeting the challenge comes with a significant additional cost. Recent analysis published by the housing association Raven showed a cost per home of £20,000 to meet zero carbon requirements.²⁷
 - 6.6.5. Guinness worked with Savills to estimate the most cost-effective way to make all of our homes zero carbon by 2050 and have found it will cost a total of £1.6 billion over the next 30 years.
 - 6.6.6. In the absence of significant Government investment in building safety and decarbonisation, we will have to choose where to spend less money over the next three decades.

July 2021

²⁵ 'Why aren't housing associations building more social rented homes?' (2019), Network Homes.

²⁶ Booth, Robert, 'Social Landlords 'face £10bn bill to fix fire safety problems'' (2 March 2020), The Guardian

²⁷ Hollander, Gavriel, 'Housing association says zero carbon will cost £20,000 per home' (18 June 2020), Inside Housing.